

MISSION

The mission of the Department of Revenue Administration is to collect the proper amount of taxes due, incurring the least cost to the taxpayers, and in a manner that merits the highest degree of public confidence in our integrity, efficiency and fairness. Further, it must provide prompt and constructive assistance to the municipal units of government in matters of budget, finance, and the appraisal of real estate.

This report is dedicated to Governor Jeanne Shaheen and Members of the Executive Council:

1st District - Raymond S. Burton
2nd District - Peter J. Spaulding
3rd District - Ruth L. Griffin
4th District - Thomas P. Colantuono
5th District - David K. Wheeler



September 30, 2001

Letter from the Commissioner:

The debate over the State's tax structure continued unabated during 2001. The department has an important role in providing the policy makers with the information that they need to make decisions. It also has a responsibility to provide technical advice on how to most efficiently administer the various plans being considered. The department's increasing role as a legislative resource has strained management and diverted resources from other projects. The legislature has recognized this problem and entered into a contract with Charles River Associates to build a tax forecasting model for the State. Because of confidentiality requirements, the department was involved in providing the contractor with the information needed to build the data bases. Approval was needed from the Internal Revenue Service to use IRS data in the tax model. The IRS data must be formatted to prevent the identification of any individual. This project placed an additional burden on the department this year, but should reduce the legislature's demands in the future.

The department continued to pursue technological innovation as a way to reduce the strain on management and provide resources in our core areas of responsibility. The redesign of the antiquated Meals and Rooms tax system, delayed because of other legislatively mandated programs, was implemented in 2001. The implementation of this system was a major milestone for the department. All major taxes are now integrated under one operating system with the capability to cross check and verify compliance between taxes.

The most exciting technological innovation implemented this year was the two dimensional (2D) bar coding system for Interest and Dividends tax estimates and returns. The bar code is the same technology used at the local grocery except the bar code is added in layers and turned on its side, hence the name 2D. The 2D allows significantly more information to be placed in the bar code by a computer program. When a tax return is prepared using software from companies cooperating with the department, a bar code is printed on the return that captures all of the information normally data entered by the department.

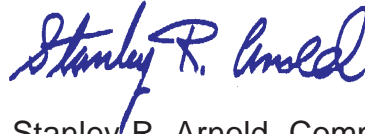
The department worked with the Federation of Tax Administrators and other states to develop standards to be used by the developers of tax preparation software. The developers agreed to include a module for the New Hampshire Interest and Dividends tax forms as a service to their customers, **at no cost to the state**. The results exceeded everyone's expectations. The 2D bar code is scanned into the state system as the first step in the processing of the return. This results in the information on the return being directly inputted into the system without the necessity to data enter the information. The processing time for the return is reduced by 90 percent! Twenty-five percent of all I&D returns and twenty-six percent of estimates were processed using 2D bar coding.

The department has received numerous requests from citizens wishing to file their tax returns electronically. After exploring the benefits of electronic filing over the internet, the department requested, and received, funding in its FY 2002/03 budget. The potential benefits of offering internet filing include reduced costs and errors. We will offer electronic filing during the 2002 filing season.

A coalition of towns sued the state over the new state education property tax. The department was extensively involved in the litigation with significant resources used to prepare the State's case and to respond to discovery requests. Department staff testified in court during a two week period in October of 2000. The Superior Court decision issued on January 17, 2001 declared the property tax unconstitutional. The Governor and legislative leadership formed a task force to respond to the concerns raised in the Superior Court's decision. The department worked with the task force to develop legislation while at the same time working with the Attorney General's office on the appeal of the decision to the Supreme Court. The Supreme Court eventually overturned the Superior Court decision, but added its comments to changes needed in the property tax system. The resulting legislation provides for a new challenge for the department in the coming year.

The department has continued to expand its audit capability and to pursue tax fraud. The first tax fraud case pursued by the department, with the assistance of the Attorney General's office, resulted in a three year prison sentence for state tax evasion. The department has developed a number of cases and is seeking indictments as resources in the AG's office become available.

Sincerely,

A handwritten signature in blue ink, reading "Stanley R. Arnold". The signature is fluid and cursive, with the first name "Stanley" being the most prominent.

Stanley R. Arnold, Commissioner
N.H. Department of Revenue

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